State of Indiana

S.T.A.R.T.® SMART

Spring 2006

Ladies and Gentlemen! Start your retirement engines at . . . The Hoosier S.T.A.R.T.® Greatest Spectacle in $aving!

By Auditor of State Connie Nass

What: The Greatest Spectacle in $aving!

When: Thursday, May 4, 2006, 11:00 a.m. to 1:30 p.m.

Where: Indiana Government Center South Atrium, 402 West Washington Street, Indianapolis

Race month is almost here! Get in the race and give your retirement planning a tune-up at the first-ever Hoosier S.T.A.R.T. Greatest Spectacle in $aving! Representatives from Hoosier S.T.A.R.T. and its investment options will be on hand to help you out of pit row and onto the track toward your own retirement winner's circle.

Planning for retirement can be a lot like preparing a car and driver for the Indy 500. You need the right car (your Plan), enough fuel (your contributions) and a good driver (you or your investment adviser). You also need a crew (plan consultants and trustees) to look out for your car through time trials and on race day—before, during and after the race. The first-ever Greatest Spectacle in $aving is designed to highlight the role your deferred compensation Plan, Hoosier S.T.A.R.T., can play in your retirement planning.

The investments you choose are just as important. Think of them in terms of mileage and octane. Once you know your expectations—how much longer you have until retirement and how much more you need to accumulate to reach your goals—you can evaluate which investment options will help you go the distance you need to travel at the speed you need to get there. After all, you need good mileage from your investments so you don't retire on empty.

The owner of the race car isn't always the driver. Come learn about advice alternatives, Web-based tools available to all participants, rebalancing and asset allocation features, and all the Hoosier S.T.A.R.T. investment options. Representatives or fund information on all the investments offered in the Hoosier S.T.A.R.T. Plan will be on hand. The Deferred Compensation Committee's investment consultant will also be there to help explain how it works with the Committee to help make this the best Plan it can be for all Indiana public employees.

Regular tune-ups can improve performance. Whether you are at the starting line or on your final lap, the Greatest Spectacle in $aving is here to help you get started, take every lap safely, run the best race you can and retire with enough fuel to keep on driving! ❁

Auditor's Corner

Striking a Balance

Reaching your long-and short-term goals

Let's face it: There's always a tug-of-war between your present needs and your future goals. The trick is to strike a balance that allows you to begin building a retirement cache today, yet still have enough ready cash to fix your roof in case it collapses tomorrow.

If you've got your retirement savings plan in place, good for you. But if sticking to that plan has you financially strapped from day to day and year to year, it's time to take a step back. Remember, there are other important priorities you may want to plan for, such as building an emergency fund and saving to send kids to college. And what about those special treats for yourself, such as vacation getaways or buying that cottage on the beach? It's important for people to treat themselves now and then. What's the point of saving for the future if it makes you miserable today?

Getting a Head Start

When you're in your 20s, 30s and 40s, you need to first determine how much you can save in your retirement plan, being sure to leave enough money in your budget for the here and now. Once you've begun to save, forget about that money—it's the cornerstone of your future. Also, be sure to tailor your retirement investments to suit your needs. The longer you have until retirement, the more money you should consider investing in stocks to fuel growth in your portfolio.

Build an emergency stash—experts recommend three to six months of salary held in an accessible account. Rather than a simple savings account, you may get more bang for your "safety" buck in an interest-bearing checking account.

Prepare for other key goals on an individual basis. For example, you might set up an Coverdale Education Savings Account or 529 plan earmarked for your kids' college tuition—keeping in mind that you won't necessarily have to foot the whole bill yourself. Loans, grants, scholarships and your children's part-time jobs can help lighten the load.

Mid-Life Planning

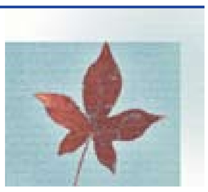
In your 50s and beyond, start to focus on yourself by visualizing life beyond the 9-to-5 workplace. Determine if you're on track to maintain the style of living you want. As expenses like mortgage payments and college tuition wind down, use this freed-up cash to pump up your retirement savings plan.

Second, consider a more moderate mix of investments as you get closer to the time when you'll begin drawing on the funds. You'll want a mix that adequately preserves your capital, provides regular income and maintains the long-term growth potential needed to fund a retirement that may last over 20 years.

Figuring out how to pay for the present and prepare for the future is as much a personal decision as it is a financial one. That's why it's important to come up with a strategy that will allow you to fix that collapsed roof and also enjoy your life—both now and when you retire. ❁

Asset Allocation vs. Diversification

Commonly confused, yet markedly different



Q: What is the difference between asset allocation and diversification?

A: Asset allocation is the first step in deciding the right mix of asset classes for your investments—one that balances risk and reward against your long- and short-term goals. For example, you may allocate 60% of your retirement savings to stock funds and 40% to fixed-income funds.

The next step is to decide what funds to choose within each asset class. This progress is called diversification. In the example above, you decided to allocate 60% of your retirement savings to stock funds. You diversify by selecting several different types of stock funds. The more diversified your portfolio is, the less likely any one investment choice can hurt you with a poor performance.

A portfolio should be diversified at two levels: among asset categories and within asset categories. So in addition to allocating your investments among stocks, bonds, cash equivalents, and possibly other asset categories, you may also want to consider spreading out your investments within each asset category. The key is to identify investments in segments of each asset category that may perform differently under the same market conditions. ❁

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